

**CITY OF MORENCI**  
**LENAWEE COUNTY, MICHIGAN**  
**ANNUAL FINANCIAL REPORT**  
**JUNE 30, 2006**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name <b>MORENCI</b>	County <b>LENAWEE</b>
Fiscal Year End <b>JUNE 30, 2006</b>	Opinion Date <b>DECEMBER 5, 2006</b>	Date Audit Report Submitted to State <b>JANUARY 8, 2007</b>	

We affirm that:

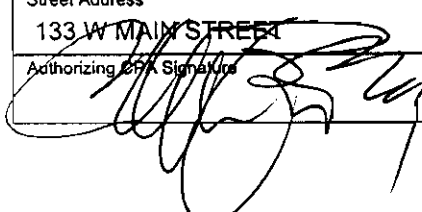
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) <b>PHILIP R RUBLEY, CPA</b>		Telephone Number <b>517-458-2274</b>		
Street Address <b>133 W MAIN STREET</b>		City <b>MORENCI</b>	State <b>MI</b>	Zip <b>49256</b>
Authorizing CPA Signature 		Printed Name <b>PHILIP R RUBLEY</b>		License Number <b>9223</b>

**CITY OF MORENCI  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2006**

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**CITY OF MORENCI, MICHIGAN**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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**Using This Annual Report**

The annual report consists of a series of financial statements. The statement of net assets and the statement of activities are both new and provide information about the activities of City of Morenci, Michigan government-wide basis. They are designed to present a longer-term view of the City's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

**Overview Of The Financial Statements**

The City's basic financial statements are comprised of three components:

- A) Government-wide financial statements.
- B) Fund financial statements.
- C) Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The City maintains 17 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Fire Equipment, Morenci Area EMS, Major Street and Local Street each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

**Proprietary Funds.** The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its public works and general maintenance equipment. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**CITY OF MORENCI, MICHIGAN**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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**Notes To The Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement of some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and recreation and community development. The business-type activities of the City include water and waste water activities reflected in the utilities fund.

The government-wide financial statements include the primary government (the City) and a legally separated authority - The Downtown Development Authority for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

#### **Other Information**

The City has reported under required supplementation information, information about the General Fund and Major Type Funds, and Combining Balance Sheets and Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Type Governmental Funds.

**CITY OF MORENCI, MICHIGAN**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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**The City As A Whole**

The City's net assets for the year ended June 30, 2006 increased by 1.52% over the prior year. Management feels that because the economic conditions have been depressed, that the City will need to be extremely cautious in 2007.

The governmental activities reflect net assets of \$2,960,514 and the business-type (utilities) of \$3,571,421.

By far the largest portion of the City's net assets (86 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire these assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF MORENCI, MICHIGAN**  
**Management's Discussion and Analysis**  
**June 30, 2006**

**CITY OF MORENCI, MICHIGAN NET ASSETS**

	<b><u>Governmental</u></b> <b><u>Activities</u></b>	<b><u>Business-Type</u></b> <b><u>Activities</u></b>	<b><u>Total</u></b>
	<b><u>2006</u></b>	<b><u>2006</u></b>	<b><u>2006</u></b>
<b><u>Revenue</u></b>			
Program Revenue:			
Charges for Services	\$ 614,231	\$ 531,178	\$1,145,409
Operating Grants and Contributions	183,992	---	183,992
Capital Grants and Contributions	90,891	---	90,891
General Revenue:			
Property Taxes	534,561	---	534,561
Grants and Contributions Not			
Restricted To Specific Program	293,068	---	293,068
Other	36,509	12,350	48,859
<b>Total Revenue</b>	<u>1,753,252</u>	<u>543,528</u>	<u>2,296,780</u>
<b><u>Expenses</u></b>			
General Government	297,722	---	297,722
Public Safety	775,622	---	775,622
Public Works	456,620	---	456,620
Community and Economic Development	8,346	---	8,346
Recreation and Culture	129,929	---	129,929
Interest on Long-Term Debt	61,456	---	61,456
Utilities Expenses	---	468,628	468,628
Other	778	---	778
<b>Total Expenses</b>	<u>1,730,473</u>	<u>468,628</u>	<u>2,199,101</u>
<b>Increase (Decrease) In Net Assets</b>	<u>22,779</u>	<u>74,900</u>	<u>97,679</u>
<b>Net Assets Beginning of Year</b>	<u>2,937,735</u>	<u>3,496,521</u>	<u>6,434,256</u>
<b>Net Assets End of Year</b>	<u>\$2,960,514</u>	<u>\$3,571,421</u>	<u>\$6,531,935</u>

**CITY OF MORENCI, MICHIGAN**  
**Management's Discussion and Analysis**  
**June 30, 2006**

**CITY OF MORENCI, MICHIGAN NET ASSETS**

	<b><u>Governmental Activities</u></b>	<b><u>Business-Type Activities</u></b>	<b><u>Total</u></b>
	<b><u>2006</u></b>	<b><u>2006</u></b>	<b><u>2006</u></b>
Current and Other Assets	\$ 423,571	\$ 621,722	\$ 1,045,293
Capital Assets	<u>4,084,739</u>	<u>4,427,349</u>	<u>8,512,088</u>
<b>Total Assets</b>	<u>4,508,310</u>	<u>5,049,071</u>	<u>9,557,381</u>
Long-Term Liabilities Outstanding	1,459,245	1,465,000	2,924,245
Other Liabilities	<u>88,551</u>	<u>12,650</u>	<u>101,201</u>
<b>Total Liabilities</b>	<u>1,547,796</u>	<u>1,477,650</u>	<u>3,025,446</u>
<b><u>Net Assets</u></b>			
Invested in Capital Assets, Net of Related Debt	2,630,994	2,962,349	5,593,343
Restricted	---	260,227	260,227
Unrestricted	<u>329,520</u>	<u>348,845</u>	<u>678,365</u>
<b>Total Net Assets</b>	<u>\$2,960,514</u>	<u>\$3,571,421</u>	<u>\$ 6,531,935</u>

**Government Activities**

Government activities increased the City's net assets by \$22,779.

**Business-Type Activities**

Business-type activities increased the City's net assets by \$74,900.

**The City's Funds**

Our analysis of the City's funds begins on Page 9, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council and management creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages, etc.

**CITY OF MORENCI, MICHIGAN**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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**General Fund Budgetary Highlights**

Differences between the original budget and amended budget were minor.

**Capital Assets And Debt Administration**

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounted to \$8,512,088 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current year was 20.06% a significant increase.

Long-term debt of the City decreased by \$284,508 (see Note 8 of the basic financial statements).

**Economic Factors And Next Year's Budget And Rates**

The City's budget for 2006-2007 fiscal year has taken inconsideration, the economic condition of the State of Michigan anticipating reduced state share revenues. This will require close tabs on expenditures for the upcoming year and adjustments will be made to mirror, when possible, the revenue base, with expenses. The City needs to increase its general fund net expendable assets.

**Contacting The City's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at 118 Orchard St., Morenci, Michigan 49256.

# PHILIP R. RUBLEY

— Certified Public Accountant —

133 W. MAIN STREET • MORENCI, MI 49256

PHONE 517/458-2274

FAX 517/458-6353

PHILIP R. RUBLEY, C.P.A.

MEMBERS OF  
AMERICAN INSTITUTE OF C.P.A.'s  
& THE MICHIGAN ASSOCIATION OF C.P.A.'s

December 5, 2006

Honorable Mayor and Members  
Of The City Council  
City of Morenci  
Morenci, Michigan 49256

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Morenci, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Morenci, Michigan, management. Our responsibility is to express opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Morenci, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

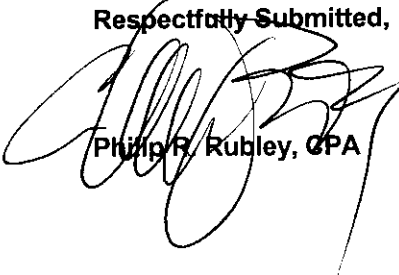
The management's discussion and analysis and budgetary comparison information on pages 1 through 6, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Morenci, Michigan basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

City of Morenci  
December 5, 2006

The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully Submitted,



Philip R. Rubley, CPA

PRR/cab

**CITY OF MORENCI, MICHIGAN**  
**Government-wide Statement of Net Assets**  
**June 30, 2006**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
<b><u>Assets</u></b>				
Cash and Equivalents	\$ 226,495	\$ 26,450	\$ 252,945	\$ 332
Investments	48,099	230,534	278,633	---
Receivables - Net	104,337	99,668	204,005	---
Inventory	564	3,050	3,614	---
Prepaid Items and Other Assets	20,981	(20,981)	---	---
Internal Balances	23,095	22,774	45,869	---
Restricted Cash	---	260,227	260,227	---
Capital Assets Not Being Depreciated	750,967	77,442	828,409	---
Capital Assets Being Depreciated - Net	<u>3,333,772</u>	<u>4,349,907</u>	<u>7,683,679</u>	<u>---</u>
<b>Total Assets</b>	<b><u>\$4,508,310</u></b>	<b><u>\$5,049,071</u></b>	<b><u>\$9,557,381</u></b>	<b><u>\$ 332</u></b>
<b><u>Liabilities</u></b>				
Accounts Payable and Accrued Expenses	88,551	12,650	101,201	---
Long-Term Liabilities:				
Due Within One Year	155,201	250,000	405,201	---
Due In More Than One Year	<u>1,304,044</u>	<u>1,215,000</u>	<u>2,519,044</u>	<u>---</u>
<b>Total Liabilities</b>	<b><u>1,547,796</u></b>	<b><u>1,477,650</u></b>	<b><u>3,025,446</u></b>	<b><u>---</u></b>
<b><u>Net Assets</u></b>				
Invested In Capital Assets, Net of Related Debt				
Debt Service	2,630,994	2,962,349	5,593,343	---
Replacement	---	260,227	260,227	---
Unrestricted	329,520	348,845	678,365	---
Restricted	<u>---</u>	<u>---</u>	<u>---</u>	<u>332</u>
<b>Total Net Assets</b>	<b><u>\$2,960,514</u></b>	<b><u>\$3,571,421</u></b>	<b><u>\$6,531,935</u></b>	<b><u>\$ 332</u></b>

**CITY OF MORENCI, MICHIGAN**  
**Government-wide Statement of Activities**  
**For The Year Ended June 30, 2006**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>	<u>Net (Expenses) Revenues</u>
<b>Primary Government</b>					
<b><u>Governmental Activities:</u></b>					
General Government	\$ 297,722	\$ 102,055	\$ ---	\$ ---	\$ (195,667)
Public Safety	775,622	366,924	15,950	---	(392,748)
Public Works	456,620	145,252	168,042	90,891	(52,435)
Community and Economic Development	8,346	---	---	---	(8,346)
Recreation and Culture	129,929	---	---	---	(129,929)
Interest on Long-Term Debt	61,456	---	---	---	(61,456)
Other	778	---	---	---	(778)
<b>Total Governmental Activities</b>	<u>1,730,473</u>	<u>614,231</u>	<u>183,992</u>	<u>90,891</u>	<u>(841,359)</u>
<b><u>Business-Type Activities:</u></b>					
Utilities	<u>468,628</u>	<u>531,178</u>	<u>---</u>	<u>---</u>	<u>62,550</u>
<b>Total Business-Type Activities</b>	<u>468,628</u>	<u>531,178</u>	<u>---</u>	<u>---</u>	<u>62,550</u>
<b>Total Primary Government</b>	<u>\$2,199,101</u>	<u>\$1,145,409</u>	<u>\$183,992</u>	<u>\$90,891</u>	<u>\$ (778,909)</u>
<b><u>Component Unit:</u></b>					
Downtown Development	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
<b>Total Component Unit</b>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>

**CITY OF MORENCI, MICHIGAN**  
**Government-wide Statement Of Activities (Concluded)**  
**For The Year Ended June 30, 2006**

	<u>Primary Government</u>			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
<b><u>Changes in Net Assets</u></b>				
Net (Expense) Revenue	\$ (841,359)	\$ 62,550	\$ (778,809)	\$ ---
General Revenues:				
Property Taxes	534,561	---	534,561	332
Grants and Contributions				
Not Restricted To				
Specific Programs	293,068	---	293,068	---
Unrestricted Investment				
Earnings and Rentals	40,139	12,350	52,489	---
(Loss) on Disposal				
of Assets	(3,474)	---	(3,474)	---
(Decrease) in Market				
Value of Investments	(156)	---	(156)	---
<b>Total General Revenues, Contributions and Transfers</b>	<u>864,138</u>	<u>12,350</u>	<u>876,488</u>	<u>332</u>
<b>Change In Net Assets</b>	<b>22,779</b>	<b>74,900</b>	<b>97,679</b>	<b>332</b>
<b>Net Assets, Beginning of Year</b>	<u>2,937,735</u>	<u>3,496,521</u>	<u>6,434,256</u>	<u>---</u>
<b>Net Assets, End of Year</b>	<u>\$2,960,514</u>	<u>\$3,571,421</u>	<u>\$6,531,935</u>	<u>\$ 332</u>

**CITY OF MORENCI, MICHIGAN**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2006**

	<b>General Fund</b>	<b>Major Street Fund</b>	<b>Local Street Fund</b>
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$ 23,450	\$ 75,682	\$ 3,834
Investments	---	---	---
Prepaid Expenses	17,911	---	---
Receivables - Net	6,283	20,876	7,288
Due from Other Funds	32,741	4,212	59,958
Inventories	564	---	---
Assessments Receivable	<u>19,604</u>	<u>---</u>	<u>---</u>
<b>Total Assets</b>	<b>\$100,553</b>	<b>\$100,770</b>	<b>\$71,080</b>
<b><u>LIABILITIES</u></b>			
Accounts Payable/Accrued Liabilities	\$ 60,008	\$ 3,157	\$ 1,270
Due to Other Funds	59,985	193	4,295
Deferred Revenue	18,683	---	---
Note Payable - Bank - Line of Credit	<u>---</u>	<u>---</u>	<u>---</u>
<b>Total Liabilities</b>	<b><u>138,676</u></b>	<b><u>3,350</u></b>	<b><u>5,565</u></b>
<b><u>FUND BALANCES</u></b>			
Unreserved (Deficit)	<u>(38,123)</u>	<u>97,420</u>	<u>65,515</u>
<b>Total Fund Balances</b>	<b><u>(38,123)</u></b>	<b><u>97,420</u></b>	<b><u>65,515</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$100,553</u></b>	<b><u>\$100,770</u></b>	<b><u>\$71,080</u></b>

The notes to financial statements are an integral part of this statement.

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<b>Fire Equipment Fund</b>	<b>Morenci Area EMS</b>	<b>Non-Major Governmental Funds</b>	<b>Other Total Governmental Funds</b>
\$20,086	\$ 2,308	\$23,441	\$148,801
21,819	---	11,676	33,495
---	1,075	---	18,986
120	29,353	17,970	81,890
---	---	63	96,974
---	---	---	564
---	---	---	19,604
<u>\$42,025</u>	<u>\$32,736</u>	<u>\$53,150</u>	<u>\$400,314</u>
\$ ---	\$ 8,805	\$ 47	\$ 73,287
1,397	2,051	8,072	75,993
---	---	---	18,683
---	5,500	---	5,500
<u>1,397</u>	<u>16,356</u>	<u>8,119</u>	<u>173,463</u>
<u>40,628</u>	<u>16,380</u>	<u>45,031</u>	<u>226,851</u>
<u>40,628</u>	<u>16,380</u>	<u>45,031</u>	<u>226,851</u>
<u>\$42,025</u>	<u>\$32,736</u>	<u>\$53,150</u>	<u>\$400,314</u>

**CITY OF MORENCI, MICHIGAN**  
**Reconciliation of Fund Balances on the Balance Sheet For Governmental Funds**  
**to Net Assets of Governmental Activities on the Statement of Net Assets**  
**June 30, 2006**

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<b>Fund Balances – Total Governmental Funds</b>	\$ 226,851
---	------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

<b>Add:</b> Capital Assets	5,869,348
<b>Deduct:</b> Accumulated Depreciation	(1,784,609)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

<b>Add:</b> Net assets of governmental activities accounted for in the internal service fund.	98,279
---	--------

Certain liabilities, such as bonds payable, notes payable, are not due and payable in the current period and therefore are not reported in the funds.

<b>Deduct:</b> Bonds and notes payable	(1,453,745)
<b>Deduct:</b> Accrued interest on bonds	(13,019)
<b>Deduct:</b> Accrued interest on note	(1,274)

Deferred Revenue is earned under the accrual method when incurred, but not in the funds.

	<u>18,683</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 2,960,514</u></b>

**CITY OF MORENCI, MICHIGAN**  
**Governmental Funds**  
**Statement of Revenue, Expenditures, and Changes in Fund Balances**  
**For The Year Ended June 30, 2006**

	<b>General Fund</b>	<b>Major Street Fund</b>	<b>Local Street Fund</b>
<b><u>REVENUES</u></b>			
Taxes and Assessments	\$ 516,978	\$ ---	\$ ---
Intergovernmental	293,068	123,906	44,136
Grants	2,000	88,891	---
Licenses and Permits	23,687	---	---
Fines and Forfeitures	5,729	---	---
Charges for Services	128,322	---	---
Interest and Rentals	37,094	1,531	24
Contributions	1,768	---	---
Other	38,732	---	---
<b>Total Revenue</b>	<b>1,047,378</b>	<b>214,328</b>	<b>44,160</b>
<b><u>EXPENDITURES</u></b>			
Current:			
General Government	276,185	---	---
Public Safety	399,163	---	---
Public Works	92,619	100,995	47,229
Community Economic Development	8,346	---	---
Recreation and Culture	107,289	---	---
Capital Outlay	65,557	110,253	---
Other Functions	778	---	---
Debt Service:			
Principle	127,686	---	---
Interest	60,312	---	---
<b>Total Expenditures</b>	<b>1,137,935</b>	<b>211,248</b>	<b>47,229</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(90,557)</b>	<b>3,080</b>	<b>(3,069)</b>
<b><u>Other Financing Sources (Uses)</u></b>			
Long Term Debt Issued	28,000	---	---
Transfers In	75,000	---	25,000
Transfers (Out)	---	(25,000)	---
(Decrease) in Market Value	---	---	---
<b>Total Other Financing Sources (Uses)</b>	<b>103,000</b>	<b>(25,000)</b>	<b>25,000</b>
<b>Net Change In Fund Balances</b>	<b>12,443</b>	<b>(21,920)</b>	<b>21,931</b>
<b>Fund Balances – Beginning of Year</b>	<b>(50,566)</b>	<b>119,340</b>	<b>43,584</b>
<b>Fund Balances – End of Year (Deficit)</b>	<b>\$ (38,123)</b>	<b>\$ 97,420</b>	<b>\$65,515</b>

The notes to financial statements are an integral part of this statement.

<u>Fire Equipment Fund</u>	<u>Morenci Area EMS</u>	<u>Non-Major Governmental Funds</u>	<u>Other Total Governmental Funds</u>
\$ ---	\$117,150	\$ ---	\$ 634,128
---	15,950	---	477,060
---	---	---	90,891
---	---	---	23,687
---	---	---	5,729
5,331	113,532	72,176	320,916
2,115	298	632	40,139
10,000	3,414	2,326	17,508
640	9,827	25,193	74,392
<u>18,086</u>	<u>260,171</u>	<u>100,327</u>	<u>1,684,450</u>
---	---	12,266	288,451
238	253,437	31,998	684,836
---	---	58,437	299,280
---	---	---	8,346
---	---	13,640	120,929
90,000	96,312	4,198	366,320
---	---	---	778
6,288	2,816	---	136,790
896	1,151	---	62,359
<u>97,422</u>	<u>353,716</u>	<u>120,539</u>	<u>1,968,089</u>
(79,336)	(93,545)	(20,212)	(283,639)
---	56,000	---	84,000
---	---	---	100,000
---	---	---	(25,000)
---	---	(156)	(156)
<u>---</u>	<u>56,000</u>	<u>(156)</u>	<u>158,844</u>
(79,336)	(37,545)	(20,368)	(124,795)
<u>119,964</u>	<u>53,925</u>	<u>65,399</u>	<u>351,646</u>
\$ 40,628	\$ 16,380	\$ 45,031	\$ 226,851

**CITY OF MORENCI, MICHIGAN**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**June 30, 2006**

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**Net Change In Fund Balances – Total Governmental Funds** \$ (124,795)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

<b>Add:</b>	Capital Outlay	351,934
<b>Deduct:</b>	Depreciation Expense	(190,959)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increase long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

<b>Add:</b>	Principal payments on long-term liabilities	136,790
-------------	---	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

<b>Add:</b>	Increase in interest payable on bonds and notes	903
-------------	---	-----

Loans are treated as income on the funds statement, but are loans on the government-wide.	(84,000)
---	----------

An internal service fund is used by management to charge certain costs of equipment usage to individual governmental funds - net increase in assets.	(84,677)
--	----------

Deferred Revenue is earned under the accrual method when incurred, but not in the funds.	<u>17,583</u>
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<b>Change In Net Assets Of Governmental Activities</b>	<b><u>\$ 22,779</u></b>
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**CITY OF MORENCI, MICHIGAN**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2006**

	<b>Business-Type Activities - Enterprise Funds</b>	<b>Governmental Activities</b>
	<b><u>Utilities Fund</u></b>	<b><u>Internal Service Fund</u></b>
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 7,495	\$ 96,649
Investments	230,534	14,604
Accounts Receivable	99,533	2,732
Interest Receivable	135	11
Inventory	3,050	---
Prepaid Expense	22,774	4,109
Noncurrent Assets:		
Restricted Cash	260,227	---
Property and Equipment - Net	<u>4,427,349</u>	<u>126,679</u>
<b>Total Noncurrent Assets</b>	<u>4,687,577</u>	<u>126,679</u>
<b>Total Assets</b>	<u>\$5,051,097</u>	<u>\$244,784</u>
<b>Liabilities</b>		
Current Liabilities:		
Due to Other Funds	\$ 20,981	\$ ---
Accounts Payable and Accrued Liabilities/Deposits	11,792	971
Accrued Equipment Rent	858	---
Bonds Payable, Current Portion	<u>250,000</u>	<u>---</u>
<b>Total Current Liabilities</b>	<u>283,631</u>	<u>971</u>
Noncurrent Liabilities:		
Bonds Payable	<u>1,215,000</u>	<u>---</u>
<b>Total Noncurrent Liabilities</b>	<u>1,215,000</u>	<u>---</u>
<b>Total Liabilities</b>	<u>1,498,631</u>	<u>971</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	2,962,349	126,679
Restricted for Replacement	260,227	---
Unrestricted	<u>329,890</u>	<u>117,134</u>
<b>Total Net Assets</b>	<u>3,552,466</u>	<u>\$243,813</u>
<b>Adjustment to Reflect The Consolidation of Internal Service Fund Activities Related to Enterprise Funds</b>	<u>18,955</u>	
<b>Net Assets of Business-Type Activities on the Government-Wide Statement of Net Assets</b>	<u>\$3,571,421</u>	

**CITY OF MORENCI, MICHIGAN**  
**Statement of Revenue, Expenses and Changes in Net Assets**  
**Proprietary Funds**  
**For The Year Ended June 30, 2006**

	<b>Business-Type Activities - Enterprise Funds</b>	<b>Governmental Activities</b>
	<b><u>Utilities Fund</u></b>	<b><u>Internal Service Fund</u></b>
<b>Operating Revenues</b>		
Charges for Services	\$ 534,402	\$ 78,965
<b>Liabilities</b>		
Salaries and Wages	117,827	25,718
Fringe Benefits	65,168	16,541
Office Expenses	13,281	4,743
Supplies and Materials	39,444	33,694
Utilities	21,325	---
Depreciation	167,695	22,453
Other Expenses	<u>2,651</u>	<u>6,303</u>
<b>Total Operating Expenses</b>	<u>427,391</u>	<u>109,452</u>
<b>Operating Income (Loss)</b>	<u>107,011</u>	<u>(30,487)</u>
<b>Non-Operating Revenues (Expenses)</b>		
Investment Income	12,350	591
Interest Expense	(41,237)	---
Other - Miscellaneous	<u>282</u>	<u>1,000</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(28,605)</u>	<u>1,591</u>
<b>Other Financing Sources</b>		
Transfer (out)	---	(75,000)
Transfer In	<u>---</u>	<u>---</u>
<b>Total Other Financing Sources</b>	<u>---</u>	<u>(75,000)</u>
<b>Income (Loss) Before Transfers</b>	78,406	(103,896)
<b>Net Assets, Beginning of Year</b>	<u>3,474,060</u>	<u>347,709</u>
<b>Net Assets, End of Year</b>	<u>\$3,552,466</u>	<u>\$243,813</u>

**CITY OF MORENCI, MICHIGAN**  
**Reconciliation of the Statement of Revenues, Expenses and Changes**  
**In Net Assets of Enterprise Funds to the Statement of Activities**  
**June 30, 2006**

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**Change In Net Assets – All Enterprise Funds**

\$78,406

An internal service fund is used by management to charge the cost of certain equipment usage to individual enterprise funds. The net revenue (expense) attributable to those funds is reported with the business-type activities

(3,506)

**Change In Net Assets Of Business-Type Activities**

\$74,900

**CITY OF MORENCI, MICHIGAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For The Year Ended June 30, 2006**

	<b>Business-Type Activities</b> <b><u>Enterprise Funds</u></b>	<b>Governmental</b> <b><u>Activities</u></b>
	<b><u>Utilities Fund</u></b>	<b><u>Internal Service Fund</u></b>
<b>Cash Flows From Operating Activities</b>		
Cash Received from Customers/Assessments	\$ 533,934	\$ 85,634
Cash Received Miscellaneous	282	1,000
Cash Payment to Suppliers For		
Goods and Services/Employees	(264,362)	(91,051)
Transfers to Other Funds	<u>---</u>	<u>(75,000)</u>
<b>Net Cash Provided (Used)</b>	<u>269,854</u>	<u>(79,417)</u>
<b>Cash Flows From Capital and</b>		
<b>Related Financing Activities</b>		
Purchase of Capital Assets	---	(79,799)
Bond Principal Payments	(245,000)	---
Bond Interest Payments	<u>(41,237)</u>	<u>---</u>
<b>Net Cash (Used) by Capital and</b>		
<b>Related Financing Activities)</b>	<u>(286,237)</u>	<u>(79,799)</u>
<b>Cash Flows From Investing Activities</b>		
Investment Income	12,330	589
Investments - Long Term	<u>7,585</u>	<u>563</u>
<b>Net Cash Provided (Used) by</b>		
<b>Investing Activities</b>	<u>19,915</u>	<u>1,152</u>
<b>Net Increase (Decrease) in Cash and</b>		
<b>Cash Equivalents</b>	3,532	(158,064)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>264,190</u>	<u>254,713</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 267,722</u>	<u>\$ 96,649</u>
<b>Reconciliation to Statement of Net Assets</b>		
Cash and Cash Equivalents	\$ 7,495	\$ 96,649
Restricted Cash and Cash Equivalents	<u>260,227</u>	<u>---</u>
	<u>\$ 267,722</u>	<u>\$ 96,649</u>

**CITY OF MORENCI, MICHIGAN**  
**Statement of Cash Flows (Concluded)**  
**Proprietary Funds**  
**For The Year Ended June 30, 2006**

	<b>Business-Type Activities - Enterprise Funds</b>	<b>Governmental Activities</b>
	<b><u>Utilities Fund</u></b>	<b><u>Internal Service Fund</u></b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ 78,406	\$(103,896)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation/Amortization	167,695	22,453
Changes in Assets and Liabilities:		
Accounts Receivable/Investments/Interest	6,978	4,753
Accounts Payable, Accrued Liabilities, Bonds Current Portion	<u>453</u>	<u>(1,012)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>253,532</u>	<u>(77,702)</u>
<b>Cash Flows from Capital Activities:</b>		
Acquisition of Capital Assets	---	<u>(79,799)</u>
<b>Net Cash (Used) from Capital Activities</b>	<u>253,532</u>	<u>(79,799)</u>
<b>Cash Flows From Financing Activities:</b>		
Investments	---	(563)
Principal Paid on Bonds	<u>(250,000)</u>	<u>---</u>
<b>Net Cash (Used) from Financing Activities</b>	<u>(250,000)</u>	<u>(563)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	3,532	(158,064)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>264,190</u>	<u>254,713</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 267,722</u>	<u>\$ 96,649</u>

**CITY OF MORENCI, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2006**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Morenci, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

**A. Reporting Entity**

City of Morenci, Michigan is governed by an elected council. The accompanying financial statements present the government for which government is considered to be financially accountable.

The financial statement of the City does not include the Morenci Stair Library which is under separate audit.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal

**CITY OF MORENCI, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2006**

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period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

**The General Fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**The Fire Equipment Fund** is a special Revenue Fund that receives monies for contractual services and charges for the purpose of providing equipment purchases for public safety.

**The Morenci Area EMS Fund** is a Special Revenue Fund that receives monies from contractual services and charges for the purpose of providing Advanced and Basic Life Support Services to the community and surrounding townships.

**The Major Street Fund** is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of City streets designated as major streets under State of Michigan Act 51 of Public Acts of 1951.

**The Local Street Fund** is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of City streets designated as local streets under State of Michigan Act 51 of Public Acts of 1951.

The government reports the following major proprietary funds:

The Water and Sewer Fund combined as the Utilities Fund accounts for acquisition, operation and maintenance of the City's waste water and water system.

Additionally, the government reports the following fund types:

The Agency Funds account for assets held by the City acting as an agent for individuals, private organizations, other governments and/or other funds.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-side and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities and enterprise funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**CITY OF MORENCI, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2006**

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Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities Funds are charges to customers for sales and services. The Utilities Funds are also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **D. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **E. Assets, Liabilities, and Net Assets or Equity**

1. **Bank Deposits and Investment** – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loans associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. **Receivables and Payables** – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."
3. **Prepaid Items** – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method.
4. **Inventories** – All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**CITY OF MORENCI, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2006**

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5. **Restricted Assets** – Certain proceeds of enterprise fund revenue bonds and general obligations bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The bond interest and redemption account is used to segregate resources accumulated for debt service payments. The bond reserve account is used to report resources set aside to make debt service payment on bonds which would otherwise be in default. The replacement account is used to report resources set aside to make major repairs and replacements to fixed operation assets of the enterprise fund.
6. **Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,500 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	20 - 50
Building	10 - 50
Machinery, Equipment, And Furnishings	5 - 35
Utility Systems	50 - 100
Infrastructure	15 - 100
Vehicles	5 - 15

7. **Compensated Absences** – It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirement.

Obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources.

**CITY OF MORENCI, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2006**

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

8. **Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

- A. **Budgetary Information** – Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the end of May of each year, the City Mayor presents the proposed budget for review and holds public hearings and a final budget is adopted.

The appropriated budget is prepared by fund, function and activity. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is with the City Council.

- B. **Excess of Expenditures Over Appropriations in Budgeted Funds** - P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2006, the government incurred expenditures in excess of amounts appropriated at the legal level of budgetary control as follows:

	<b><u>Amended Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance</u></b>
General Fund:			
General Government:			
Council and General	\$ 45,983	\$ 60,132	\$(14,149)
Buildings and Grounds	69,842	86,585	(16,743)
Board of Review	425	576	(151)
Cemetery	56,787	56,998	(211)
Public Works:			
Street and Traffic Lights	24,417	28,789	(4,372)
Public Safety:			
Inspections	15,295	20,601	(5,306)
Police	303,362	308,230	(4,868)
Fire	65,353	70,332	(4,979)
Recreation and Culture:			
Parks	34,424	43,343	(8,919)
Community Economic Development:			
Planning and Zoning	8,015	8,346	(331)
Capital Outlay:	59,175	65,557	(6,382)
Fire Equipment Fund:			
Fire	75,000	97,422	(22,422)
EMS Fund:			
Ambulance	283,190	353,716	(70,526)

**CITY OF MORENCI, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2006**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

The government unit's deposits and investment policy are in accordance with statutory authority.

Investments made by the City are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

- Category 1:** Insured or registered, or securities held by the City or its agent in the City's name.
- Category 2:** Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3:** Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

	<u>Category</u> <u>1</u>	<u>2</u>	<u>3</u>	<u>Carrying</u> <u>Value</u>	<u>Market</u> <u>Value</u>
Checking and Saving Accounts, Etc.	\$ 84,208	\$350,661	\$ ---	\$434,869	\$434,869
Investments - Certificates of Deposits	<u>86,423</u>	<u>270,845</u>	<u>---</u>	<u>357,268</u>	<u>357,268</u>
	<u>\$170,631</u>	<u>\$621,506</u>	<u>\$ ---</u>	<u>\$792,137</u>	<u>\$792,137</u>

**Balance Sheet Cash And Cash Investments**

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosures for the City's deposits are as follows:

<u>Deposits</u>	<u>Carrying</u> <u>Amount</u>
Insured (FDIC) (FSLIC)	\$170,631
Uninsured:	
Uncollateralized	<u>621,506</u>
<b>Total</b>	<u>\$792,137</u>

Total cash consist of: Cash and cash investments of \$531,578 and restricted cash of \$260,227 and Component Unit cash of \$332.

**CITY OF MORENCI, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2006**

**NOTE 4 – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b><u>Governmental Activities</u></b>				
Capital Assets, Not Being Depreciated:				
Other	\$ 750,967	\$ ---	\$ ---	\$ 750,967
	<u>750,967</u>	<u>---</u>	<u>---</u>	<u>750,967</u>
Capital Assets, Being Depreciated:				
Buildings	883,140	19,341	---	902,481
Vehicles	1,144,182	213,451	(192,577)	1,165,056
Equipment	726,534	88,689	(54,191)	761,032
Infrastructure	2,179,559	110,253	---	2,289,812
<b>Total Capital Assets Being Depreciated</b>	<u>4,933,415</u>	<u>431,734</u>	<u>(246,768)</u>	<u>5,118,381</u>
Less Accumulated Depreciation For:				
Buildings	(365,179)	(20,699)	---	(385,878)
Vehicles	(594,062)	(69,409)	182,251	(481,220)
Equipment	(537,222)	(33,449)	54,191	(516,480)
Infrastructure	(333,629)	(67,402)	---	(401,031)
<b>Total Accumulated Depreciation</b>	<u>(1,830,092)</u>	<u>(190,959)</u>	<u>236,442</u>	<u>(1,784,609)</u>
<b>Total Capital Assets, Being Depreciated, Net</b>	<u>3,103,323</u>	<u>240,775</u>	<u>(10,326)</u>	<u>3,333,772</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 3,854,290</u>	<u>\$ 240,775</u>	<u>\$ (10,326)</u>	<u>\$ 4,084,739</u>
<b><u>Business-Type Activities</u></b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 77,442	\$ ---	\$ ---	\$ 77,442
	<u>77,442</u>	<u>---</u>	<u>---</u>	<u>77,442</u>
Capital Assets, Being Depreciated:				
Buildings, Systems & Equipment	7,601,183	---	---	7,601,183
<b>Total Capital Assets Being Depreciated</b>	<u>7,601,183</u>	<u>---</u>	<u>---</u>	<u>7,601,183</u>
Less Accumulated Depreciation For:				
Buildings, Systems & Equipment	(3,083,581)	(167,695)	---	(3,251,276)
<b>Total Accumulated Depreciation</b>	<u>(3,083,581)</u>	<u>(167,695)</u>	<u>---</u>	<u>(3,251,276)</u>
<b>Total Capital Assets, Being Depreciated, Net</b>	<u>4,517,602</u>	<u>(167,695)</u>	<u>---</u>	<u>4,349,907</u>
<b>Business Type Activities Capital Assets, Net</b>	<u>\$ 4,595,044</u>	<u>\$ (167,695)</u>	<u>\$ ---</u>	<u>\$ 4,427,349</u>

**CITY OF MORENCI, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2006**

Depreciation expense was charged to functions/programs of the City as follows:

**Governmental Activities:**

General Government	\$ 11,373
Public Safety	78,347
Public Works	69,786
Culture and Recreation	9,000
Capital Assets Held By The Government's Internal Service Funds Are Charged To The Various Functions Based On Their Usage Of The Assets.	<u>22,453</u>

<b>Total Depreciation Expense Governmental Activities</b>	<b><u>\$190,959</u></b>
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**Business-Type Activities:**

Utilities	<u>\$167,695</u>
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<b>Total Depreciation Expense Business-Type Activities</b>	<b><u>\$167,695</u></b>
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**NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES**

At June 30, 2006, the following were interfund receivables and payables in the fund statement.

<b><u>Fund</u></b>	<b><u>Interfund Receivables</u></b>	<b><u>Interfund Payables</u></b>
General	\$ 32,741	\$ 59,985
Fire Equipment	---	1,397
Major Street	4,212	193
Local Street	59,958	4,295
Water	18,000	12,108
Sewer	3,546	30,419
Debt Service	63	700
Morenci Town & Country	---	7,248
K-9	---	124
EMS	---	2,051
	<u>\$118,520</u>	<u>\$118,520</u>

**CITY OF MORENCI, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2006**

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**NOTE 6 – TRANSFERS**

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted, to or allowed for debt services from the funds collecting the receipts to the debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs, accounted for in other funds in accordance with budgetary authorizations.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 75,000	\$ ---
Major Street	---	25,000
Local	25,000	---
Internal Service Fund	---	75,000
	<u>\$100,000</u>	<u>\$100,000</u>

**NOTE 7 – PROPERTY TAXES:**

The City bills and collects its own property taxes and also taxes for the County and several School Districts within its jurisdiction. Collections and remittances of the County and School taxes are accounted for in the Current Tax Collection Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they result in current receivables.

Property taxes are assessed December 31<sup>st</sup> and are levied on June 1<sup>st</sup>. Taxes become delinquent on August 31<sup>st</sup> with a 1% interest charge beginning October 1<sup>st</sup>. All delinquent taxes are charged with a 4% penalty.

Property taxes attach as an enforceable lien on the property as of January 1.

**CITY OF MORENCI, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2006**

**NOTE 8 – LONG TERM DEBT**

Long-term debt consists of the following:

	<b><u>Balance</u></b> <b><u>July 1,</u></b> <b><u>2005</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Balance</u></b> <b><u>June 30,</u></b> <b><u>2006</u></b>
Sanitary Sewer Bonds - Series I	\$ 100,000	\$ ---	\$ 50,000	\$ 50,000
Sanitary Sewer Bonds Series II	1,270,000	---	170,000	1,100,000
Bonds Payable - Water Distribution	340,000	---	25,000	315,000
Notes Payable - Industrial - Park - Land	200,526	---	48,300	152,226
Construction Bond - General Obligation	1,275,000	---	75,000	1,200,000
Notes Payable - Bank - 2005 Ford Pickup	23,227	7,782	6,288	24,721
Note Payable - Bank - 2005 Chevy Tahoe	---	28,000	4,386	23,614
Note Payable - Bank - 2003 Ford Ambulance	---	56,000	2,816	53,184
Note Payable - Bank - Line of Credit - EMS	---	5,500	---	5,500
<b>Total</b>	<b>\$3,208,753</b>	<b>\$97,282</b>	<b>\$381,790</b>	<b>\$2,924,245</b>

**City of Morenci – Sanitary Sewer System Bonds**

**Title of Issue:** City of Morenci - Series I Sanitary Sewer System Bonds  
**Purpose:** Sanitary Sewer System  
**Interest Rate:** 6.0% - Current  
**Interest Payable:** Semi-Annual on January and July of each year  
**Amount of Issue:** \$900,000

<b><u>Due Dates</u></b>	<b><u>Total</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>
2007	\$53,000	\$3,000	\$50,000
	\$53,000	\$3,000	\$50,000

**City of Morenci – 2003 Ford Ambulance Note**

**Purpose:** Purchase Ambulance  
**Interest Rate:** 5.0%  
**Amount of Note:** \$56,000  
**Payments:** Monthly at \$793 including interest for 84 months

<b><u>Due Dates</u></b>	<b><u>Total</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>
2006-2007	\$ 9,520	\$2,536	\$ 6,984
2007-2008	9,520	2,179	7,341
2008-2009	9,520	1,792	7,728
2009-2010	9,520	1,391	8,129
2010-2011	9,520	970	8,550
2011-2012	9,520	527	8,993
2012-2013	5,553	94	5,459
	<b>\$62,673</b>	<b>\$9,489</b>	<b>\$53,184</b>

**CITY OF MORENCI, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2006**

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**City of Morenci – Sanitary Sewer Systems Bonds**

**Title of Issue:** City of Morenci - Series II Sanitary Sewer Systems Bonds  
**Purpose:** Sanitary Sewer System  
**Interest Rate:** 2.0% - Current  
**Interest Payable:** Semi-Annual on October 1, and April 1, of each year  
**Amount of Issue:** \$3,087,009

<b><u>Due Dates</u></b>	<b><u>Total</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>
October 1, 2006	\$ 186,000	\$11,000	\$ 175,000
April 1, 2007	9,250	9,250	
October 1, 2007	189,250	9,250	180,000
April 1, 2008	7,450	7,450	
October 1, 2008	187,450	7,450	180,000
April 1, 2009	5,650	5,650	
October 1, 2009	190,650	5,650	185,000
April 1, 2010	3,800	3,800	
October 1, 2010	193,800	3,800	190,000
April 1, 2011	1,900	1,900	
October 1, 2011	<u>191,900</u>	<u>1,900</u>	<u>190,000</u>
	\$1,167,100	\$67,100	<u>\$1,100,000</u>

**City of Morenci – 2005 Chevy Tahoe – Police Vehicle**

**Purpose:** Purchase 2005 Chevy Tahoe for Police Department  
**Interest Rate:** 3.75%  
**Interest Payable:** Monthly at \$630 including interest for 48 months  
**Amount of Issue:** \$28,000

<b><u>Due Dates</u></b>	<b><u>Total</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>
July 28, 2006 - June 28, 2007	\$ 7,521	\$ 734	\$ 6,787
July 28, 2007 - June 28, 2008	7,521	475	7,046
July 28, 2008 - June 28, 2009	7,521	206	7,315
July 28, 2009 - June 28, 2010	<u>2,593</u>	<u>127</u>	<u>2,466</u>
	\$25,156	<u>\$1,542</u>	<u>\$23,614</u>

**CITY OF MORENCI, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2006**

**City of Morenci – Revenue Sharing Bonds – Water Distribution**

**Title of Issue:** Refunding of 1992A MBIA Revenue Sharing - Morenci  
**Purpose:** Water Distribution  
**Date of Issue:** May 13, 2004  
**Maturity Date:** November 1, 2016  
**Interest Rate:** 2.0% to 5.0%  
**Interest Payable:** Semi-Annually  
**Amount of Issue:** \$365,000

<b><u>Due Dates</u></b>	<b><u>Total</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>
November 1, 2006	\$ 30,490	\$ 5,490	\$ 25,000
May 1, 2007	5,240	5,240	
November 1, 2007	35,240	5,240	30,000
May 1, 2008	4,903	4,903	
November 1, 2008	34,903	4,903	30,000
May 1, 2009	4,490	4,490	
November 1, 2009	24,490	4,490	20,000
May 1, 2010	4,190	4,190	
November 1, 2010	29,190	4,190	25,000
May 1, 2011	3,790	3,790	
November 1, 2011	28,790	3,790	25,000
May 1, 2012	3,353	3,353	
November 1, 2012	33,353	3,353	30,000
May 1, 2013	2,790	2,790	
November 1, 2013	32,790	2,790	30,000
May 1, 2014	2,190	2,190	
November 1, 2014	37,190	2,190	35,000
May 1, 2015	1,490	1,490	
November 1, 2015	31,490	1,490	30,000
May 1, 2016	875	875	
November 1, 2016	<u>35,875</u>	<u>875</u>	<u>35,000</u>
	<u>\$387,112</u>	<u>\$72,112</u>	<u>\$315,000</u>

**City of Morenci – Industrial Park – Land**

**Purpose:** Industrial Park Development - Land  
**Interest Rate:** 2.31%  
**Amount of Issue:** \$440,000

<b><u>Due Dates</u></b>	<b><u>Total</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>
September 12, 2006	\$ 26,327	\$1,758	\$ 24,569
March 12, 2007	26,327	1,474	24,853
September 12, 2007	26,327	1,187	25,140
March 12, 2008	26,327	897	25,430
September 12, 2008	26,327	603	25,724
March 12, 2009	<u>26,816</u>	<u>306</u>	<u>26,510</u>
	<u>\$158,451</u>	<u>\$6,225</u>	<u>\$152,226</u>

**CITY OF MORENCI, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2006**

**City of Morenci – General Obligation Bonds**

**Purpose:** Downtown Development - Streetscape  
**Interest Rate:** 4.4%  
**Amount of Issue:** \$1,380,000

<b><u>Due Dates</u></b>	<b><u>Total</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>
October 1, 2006	\$ 66,400	\$ 26,400	\$ 40,000
April 1, 2007	65,520	25,520	40,000
October 1, 2007	64,640	24,640	40,000
April 1, 2008	63,760	23,760	40,000
October 1, 2008	62,880	22,880	40,000
April 1, 2009	67,000	22,000	45,000
October 1, 2009	66,010	21,010	45,000
April 1, 2010	65,020	20,020	45,000
October 1, 2010	64,030	19,030	45,000
April 1, 2011	63,040	18,040	45,000
October 1, 2011	67,050	17,050	50,000
April 1, 2012	65,950	15,950	50,000
October 1, 2012	64,850	14,850	50,000
April 1, 2013	63,750	13,750	50,000
October 1, 2013	62,650	12,650	50,000
April 1, 2014	66,550	11,550	55,000
October 1, 2014	65,340	10,340	55,000
April 1, 2015	64,130	9,130	55,000
October 1, 2015	62,920	7,920	55,000
April 1, 2016	66,710	6,710	60,000
October 1, 2016	65,390	5,390	60,000
April 1, 2017	64,070	4,070	60,000
October 1, 2017	62,750	2,750	60,000
April 1, 2018	66,430	1,430	65,000
	<u>\$1,556,840</u>	<u>\$356,840</u>	<u>\$1,200,000</u>

**City of Morenci – 2005 Ford Pickup**

**Purpose:** Purchase 2005 Ford Pickup - Fire Department  
**Interest Rate:** 3.125%  
**Amount of Issue:** \$26,955  
**Payments:** Monthly at \$599 including interest starting December 22, 2004

<b><u>Fiscal Year Due Dates</u></b>	<b><u>Total</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>
2006 - 2007	\$ 7,184	\$ 676	\$ 6,508
2007 - 2008	7,184	470	6,714
2008 - 2009	7,184	256	6,928
2009 - 2010	<u>4,623</u>	<u>52</u>	<u>4,571</u>
	<u>\$26,175</u>	<u>\$1,454</u>	<u>\$24,721</u>

**CITY OF MORENCI, MICHIGAN**  
**Notes to Financial Statements**  
**June 30, 2006**

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**City of Morenci – Line of Credit - EMS**

**Purpose:** Operating Line - EMS

**Interest Rate:** Variable

**Amount due at June 30, 2006:** \$5,500

**Maturities of Long-Term Debt**

Maturities for the next five years of long-term debt are as follows:

<u>Years</u>	<u>Amounts</u>
2007	\$ 405,201
2008	361,671
2009	369,205
2010	310,166
2011	313,550
There After	<u>1,164,452</u>
	<u>\$2,924,245</u>

**NOTE 9 – PENSION PLAN**

The City of Morenci has a qualified 401(k) plan, administered by ICMA-RC.

Contributions are made by the City and employees. The Plan is blended between growth funds, cash management and government investments. Contribution by the City for fiscal year 2006 was \$34,871.

**NOTE 10 – OTHER INFORMATION**

**Risk Management**

The government is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2006, the government carried insurance through various commercial carriers, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

**CITY OF MORENCI, MICHIGAN**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For The Year Ended June 30, 2006**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<b><u>Beginning of Year Fund Balance</u></b>				
<b>Resources (Inflows)</b>	\$ 69,300	\$ 69,300	\$ (50,566)	\$ (119,866)
Taxes and Assessments	506,571	506,571	516,978	10,407
Intergovernmental	293,496	293,496	293,068	(428)
Grants	2,135	2,135	2,000	(135)
Licenses and Permits	23,716	23,716	23,687	(29)
Fines and Forfeitures	7,723	7,723	5,729	(1,994)
Charges For Services	119,962	119,962	128,322	8,360
Interest and Rentals	40,701	40,701	37,094	(3,607)
Other	32,188	32,188	66,732	34,544
Contributions	3,000	3,000	1,768	(1,232)
Transfers In Other Funds	---	---	75,000	75,000
<b>Amounts Available for Appropriation</b>	<u>1,098,792</u>	<u>1,098,792</u>	<u>1,099,812</u>	<u>1,020</u>
<b><u>Charges to Appropriations (Outflows)</u></b>				
<b>General Government</b>				
City Council	45,983	45,983	60,132	(14,149)
City Mayor	1,292	1,292	589	703
Treasurer	15,423	15,423	13,795	1,628
Assessing	9,680	9,680	9,061	619
Clerk	48,582	48,582	46,417	2,165
Elections	2,215	2,215	2,032	183
Buildings and Grounds	69,842	69,842	86,585	(16,743)
Board of Review	425	425	576	(151)
Cemetery	56,787	56,787	56,998	(211)
	<u>250,229</u>	<u>250,229</u>	<u>276,185</u>	<u>(25,956)</u>
<b>Public Safety</b>				
Police	303,362	303,362	308,230	(4,868)
Inspections	15,295	15,295	20,601	(5,306)
Fire	65,353	65,353	70,332	(4,979)
	<u>384,010</u>	<u>384,010</u>	<u>399,163</u>	<u>(15,153)</u>
<b>Community Economic Development</b>				
Planning and Zoning	<u>8,015</u>	<u>8,015</u>	<u>8,346</u>	<u>(331)</u>
<b>Public Works</b>				
Street and Traffic Lights	24,417	24,417	28,789	(4,372)
Sanitation	76,143	76,143	63,830	12,313
	<u>100,560</u>	<u>100,560</u>	<u>92,619</u>	<u>7,941</u>
<b>Recreation and Culture</b>				
Library	65,630	65,630	63,946	1,684
Park	34,424	34,424	43,343	(8,919)
	<u>100,054</u>	<u>100,054</u>	<u>107,289</u>	<u>(7,235)</u>
<b>Capital Outlay</b>	<u>59,175</u>	<u>59,175</u>	<u>65,557</u>	<u>(6,382)</u>
<b>Other Functions</b>	<u>196,090</u>	<u>196,090</u>	<u>188,776</u>	<u>7,314</u>
<b>Total Charges to Appropriations</b>	<u>1,098,133</u>	<u>1,098,133</u>	<u>1,137,935</u>	<u>(39,802)</u>
<b>Ending of Year Fund Balance (Deficit)</b>	\$ <u>659</u>	\$ <u>659</u>	\$ <u>(38,123)</u>	\$ <u>(38,782)</u>

**CITY OF MORENCI, MICHIGAN**  
**Budgetary Comparison Schedule**  
**Fire Equipment Fund (Major Special Revenue Fund)**  
**For The Year Ended June 30, 2006**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<b><u>Beginning of Year Fund Balance</u></b>				
<b>Resources (Inflows)</b>	\$ 64,500	\$ 64,500	\$119,964	\$ 55,464
Charge for Services	6,000	6,000	5,331	(669)
Contributions	---	---	10,000	10,000
Interest Income	500	500	2,115	1,615
Miscellaneous	4,000	4,000	640	(3,360)
 <b>Amounts Available for Appropriation</b>	 <u>75,000</u>	 <u>75,000</u>	 <u>138,050</u>	 <u>63,050</u>
 <b><u>Charges to Appropriations (Outflows)</u></b>				
Public Safety	---	---	238	(238)
Debt Service	---	---	7,184	(7,184)
Capital Outlay	75,000	75,000	90,000	(15,000)
 <b>Total Charges to Appropriations</b>	 <u>75,000</u>	 <u>75,000</u>	 <u>97,422</u>	 <u>(22,422)</u>
 <b>Ending of Year Fund Balance</b>	 <u>\$ ---</u>	 <u>\$ ---</u>	 <u>\$ 40,628</u>	 <u>\$ 40,628</u>

**CITY OF MORENCI, MICHIGAN**  
**Budgetary Comparison Schedule**  
**Morenci Area EMS Fund (Major Special Revenue Fund)**  
**For The Year Ended June 30, 2006**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<b><u>Beginning of Year Fund Balance</u></b>				
<b>Resources (Inflows)</b>	\$ ---	\$ ---	\$ 53,925	\$ 53,925
Assessments	117,150	117,150	117,150	---
Intergovernmental	10,000	10,000	15,950	5,950
Charges for Services	147,128	147,128	113,532	(33,596)
Contributions	2,000	2,000	3,414	1,414
Interest Income	50	50	298	248
Other	6,862	6,862	9,827	2,965
Long-Term Debt Issued	---	---	56,000	56,000
 <b>Amounts Available for Appropriation</b>	 <u>283,190</u>	 <u>283,190</u>	 <u>370,096</u>	 <u>86,906</u>
 <b><u>Charges to Appropriations (Outflows)</u></b>				
Debt Service	---	---	3,967	(3,967)
EMS Service	269,190	269,190	253,437	15,753
Capital Outlay	<u>14,000</u>	<u>14,000</u>	<u>96,312</u>	<u>(82,312)</u>
 <b>Total Charges to Appropriations</b>	 <u>283,190</u>	 <u>283,190</u>	 <u>353,716</u>	 <u>(70,526)</u>
 <b>Ending of Year Fund Balance</b>	 <u>\$ ---</u>	 <u>\$ ---</u>	 <u>\$ 16,380</u>	 <u>\$ 16,380</u>

**CITY OF MORENCI, MICHIGAN**  
**Budgetary Comparison Schedule**  
**Major Street Fund (Special Revenue Fund)**  
**For The Year Ended June 30, 2006**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<b><u>Beginning of Year Fund Balance</u></b>				
<b>Resources (Inflows)</b>	\$109,823	\$109,823	\$119,340	\$ 9,517
Intergovernmental	125,706	125,706	123,906	(1,800)
Interest Income	1,000	1,000	1,531	531
Grants	<u>---</u>	<u>---</u>	<u>88,891</u>	<u>88,891</u>
 <b>Amounts Available for Appropriation</b>	 <u>236,529</u>	 <u>236,529</u>	 <u>333,668</u>	 <u>97,139</u>
 <b><u>Charges to Appropriations (Outflows)</u></b>				
Public Works	205,103	205,103	211,248	(6,145)
Transfers to Other Funds	<u>31,426</u>	<u>31,426</u>	<u>25,000</u>	<u>6,426</u>
 <b>Total Charges to Appropriations</b>	 <u>236,529</u>	 <u>236,529</u>	 <u>236,248</u>	 <u>281</u>
 <b>Ending of Year Fund Balance</b>	 <u>\$ ---</u>	 <u>\$ ---</u>	 <u>\$ 97,420</u>	 <u>\$ 97,420</u>

**CITY OF MORENCI, MICHIGAN**  
**Budgetary Comparison Schedule**  
**Local Street Fund (Special Revenue Fund)**  
**For The Year Ended June 30, 2006**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<b><u>Beginning of Year Fund Balance</u></b>				
<b>Resources (Inflows)</b>	\$ 6,498	\$ 6,498	\$ 43,584	\$37,086
Intergovernmental	44,726	44,726	44,136	(590)
Interest Income	25	25	24	(1)
Transfers from Other Funds	<u>31,426</u>	<u>31,426</u>	<u>25,000</u>	<u>(6,426)</u>
<b>Amounts Available for     Appropriation</b>	<u>82,675</u>	<u>82,675</u>	<u>112,744</u>	<u>30,069</u>
<b><u>Charges to Appropriations (Outflows)</u></b>				
Public Works	<u>82,675</u>	<u>82,675</u>	<u>47,229</u>	<u>35,446</u>
<b>Total Charges to Appropriations</b>	<u>82,675</u>	<u>82,675</u>	<u>47,229</u>	<u>35,446</u>
<b>Ending of Year Fund Balance</b>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 65,515</u>	<u>\$65,515</u>

**CITY OF MORENCI, MICHIGAN**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2006**

	<b><u>Special Revenue Funds</u></b>			
	<b><u>Fire Benefit</u></b>	<b><u>Police Equipment</u></b>	<b><u>Refuse</u></b>	<b><u>Fire Explorers</u></b>
<b><u>Assets</u></b>				
Cash and Cash Equivalents	\$ ---	\$6,590	\$ 5,134	\$ ---
Receivables	---	---	15,220	---
Due from Other Funds	---	---	---	---
Investments	---	---	11,676	---
<b>Total Assets</b>	<b>\$ ---</b>	<b>\$6,590</b>	<b>\$32,030</b>	<b>\$ ---</b>
<b><u>Liabilities and Fund Balances</u></b>				
<b><u>Liabilities</u></b>				
Accounts Payable	\$ ---	\$ ---	\$ ---	\$ ---
Due to Other Funds	---	---	---	---
<b>Total Liabilities</b>	<b>---</b>	<b>---</b>	<b>---</b>	<b>---</b>
<b><u>Fund Balance</u></b>	<b>---</b>	<b>6,590</b>	<b>32,030</b>	<b>---</b>
<b>Total Liabilities And Fund Balances</b>	<b>\$ ---</b>	<b>\$6,590</b>	<b>\$32,030</b>	<b>\$ ---</b>

The notes to financial statements are an integral part of this statement.

<u>Police K-9</u>	<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>	<u>Total Non-Major Governmental Funds</u>
	<u>Town &amp; Country Festival</u>	<u>Oak Grove Cemetery</u>	<u>EMS Recreation</u>	<u>Debt Service</u>	
\$ 417	\$ 9,844	\$ ---	\$ 345	\$1,111	\$23,441
---	2,750	---	---	---	17,970
---	---	---	---	63	63
---	---	---	---	---	11,676
<u>\$ 417</u>	<u>\$12,594</u>	<u>\$ ---</u>	<u>\$ 345</u>	<u>\$1,174</u>	<u>\$53,150</u>
\$ ---	\$ 47	\$ ---	\$ ---	\$ ---	\$ 47
<u>124</u>	<u>7,248</u>	<u>---</u>	<u>---</u>	<u>700</u>	<u>8,072</u>
<u>124</u>	<u>7,295</u>	<u>---</u>	<u>---</u>	<u>700</u>	<u>8,119</u>
<u>293</u>	<u>5,299</u>	<u>---</u>	<u>345</u>	<u>474</u>	<u>45,031</u>
<u>\$ 417</u>	<u>\$12,594</u>	<u>\$ ---</u>	<u>\$ 345</u>	<u>\$1,174</u>	<u>\$53,150</u>

**CITY OF MORENCI, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Non-Major Governmental Funds**  
**For The Year Ended June 30, 2006**

**Special Revenue Funds**

	<b><u>Fire Benefit</u></b>	<b><u>Police Equipment</u></b>	<b><u>Refuse</u></b>	<b><u>Fire Explorers</u></b>
<b><u>Revenues:</u></b>				
Contributions	\$ 996	\$ 20	\$ ---	\$ ---
Charges for Services	---	---	72,176	---
Interest and Rents	201	12	387	---
Other Revenue	4,125	4,567	---	87
<b>Total Revenue</b>	<u>5,322</u>	<u>4,599</u>	<u>72,563</u>	<u>87</u>
<b><u>Expenditures:</u></b>				
General Government	---	---	---	---
Public Safety	29,319	473	---	965
Public Works	---	---	58,437	---
Recreational and Cultural	---	---	---	---
Capital Outlay	---	1,420	---	---
<b>Total Expenditures</b>	<u>29,319</u>	<u>1,893</u>	<u>58,437</u>	<u>965</u>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<u>(23,997)</u>	<u>2,706</u>	<u>14,126</u>	<u>(878)</u>
<b><u>Other Financing Sources</u></b>				
<b><u>(Uses):</u></b>				
Operating Transfers In	---	---	---	---
Operating Transfers (Out)	---	---	---	---
(Decrease) in Market Value of Investments	(156)	---	---	---
<b>Total Other Financing Sources (Uses)</b>	<u>(156)</u>	<u>---</u>	<u>---</u>	<u>---</u>
<b><u>Excess of Revenues and Other Sources Over (Under) (Expenditures and Other Uses)</u></b>	<u>(24,153)</u>	<u>2,706</u>	<u>14,126</u>	<u>(878)</u>
<b><u>Beginning Fund Balance</u></b>	<u>24,153</u>	<u>3,884</u>	<u>17,904</u>	<u>878</u>
<b><u>Ending Fund Balance</u></b>	<u>\$ ---</u>	<u>\$6,590</u>	<u>\$32,030</u>	<u>\$ ---</u>

The notes to financial statements are an integral part of this statement.

<u>Special Revenue Funds</u>				<u>Debt Service Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>Police K-9</u>	<u>Town &amp; Country Festival</u>	<u>Oak Grove Cemetery</u>	<u>EMS Recreation</u>	<u>Debt Service</u>	
\$ ---	\$ 1,310	\$ ---	\$ ---	\$ ---	\$ 2,326
---	---	---	---	---	72,176
2	22	---	---	8	632
---	15,617	---	797	---	25,193
2	16,949	---	797	8	100,327
---	---	12,266	---	---	12,266
276	---	---	965	---	31,998
---	---	---	---	---	58,437
---	13,640	---	---	---	13,640
---	---	---	---	2,778	4,198
276	13,640	12,266	965	2,778	120,539
(274)	3,309	(12,266)	(168)	(2,770)	(20,212)
---	---	---	---	---	---
---	---	---	---	---	(156)
---	---	---	---	---	(156)
(274)	3,309	(12,266)	(168)	(2,770)	(20,368)
567	1,990	12,266	513	3,244	65,399
\$ 293	\$ 5,299	\$ ---	\$ 345	\$ 474	\$ 45,031

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MEMBERS OF  
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& THE MICHIGAN ASSOCIATION OF C.P.A.'S

December 5, 2006

Honorable Mayor and Members  
Of The City Council  
City of Morenci  
Morenci, Michigan 49256

We have examined the financial statements of the City of Morenci, Michigan as of and for the year ended June 30, 2006 and have issued our report thereon dated December 5, 2006. As a part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Under these standards, the purposes of such an evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statement and to assist the auditor in planning and performing his examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements made in accordance with auditing standards generally accepted in the United States of America, including the study and evaluation of the City's system of internal accounting control for the year ended June 30, 2006, that was made for the purpose set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

## 1. GASB 34 - INFRASTRUCTURE

It is imperative that the City continue to maintain the fixed assets structure created to comply with the change in accounting methods. Keep track of deleted items on a fiscal year basis to allow for proper deletion of assets sold or disposed of.

2. **INVESTMENTS**

It was noted that the Fire Department has investments that are possibly not in compliance with the investment policy of the City and P.A. 55 of 1982, as amended. Even though these amounts are immaterial, compliance needs to be maintained. These funds were terminated before year end.

3. **DEFICIT FUND BALANCE - GENERAL FUND**

The City needs to come up with a deficit reduction plan applicable to the fund accounting and budget of the general fund.

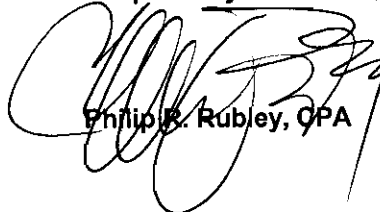
4. **MAJOR AND LOCAL STREETS**

You cannot charge more than 10% of the intergovernmental revenues received from Act 51 to Major and Local Streets for administrative costs.

The above mentioned conditions were considered in determining the nature, timing, and extent of audit tests to be applied to our examination of the financial statements, and this report does not modify our report dated December 5, 2006 on such financial statements.

If we can be of any further assistance, please do not hesitate in contacting us.

Respectfully Submitted,



Philip B. Rubley, CPA